

# Kayne Anderson

*NextGen Energy & Infrastructure, Inc.*



**KMF Quarterly Commentary  
& Performance Data: Q3'21**  
September 30, 2021

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Dear Fellow Stockholders:

The world has been battling the COVID-19 pandemic for almost two years and, unfortunately, this global health crisis continues to have a meaningful impact on people across the globe. While we are optimistic that the worst of the pandemic is behind us in the United States, we also acknowledge that much work remains before the virus no longer poses a serious health threat. Further, we expect the global economy will be dealing with the knock-on effects of this pandemic well into 2022 – elevated inflation and supply chain disruptions are but two current examples – and we believe there could be periods of heightened volatility as market participants assess the impact of these events. We have positioned KMF's balance sheet accordingly by reducing the Fund's leverage levels for the time being.

In this letter, we discuss the energy infrastructure markets, KMF's portfolio positioning and the Fund's year-to-date performance. We are pleased with KMF's performance thus far in fiscal 2021 and believe our stockholders have benefitted from KMF's emphasis on NextGen Companies participating in the Energy Transition – including Utilities, Renewable Infrastructure Companies, and Natural Gas & LNG Infrastructure Companies. We are optimistic about the outlook for these sectors and for traditional midstream companies over the next few years and believe KMF is well positioned to benefit from the trends that underpin our optimism.

## **Market Conditions**

During KMF's fiscal third quarter, the S&P 500 returned 8%<sup>1</sup> and was up 26% during the first nine months of fiscal 2021. Despite many uncertainties – including the pace of the economic recovery due to COVID-19, inflation, trade relations and both fiscal and monetary policy – the broader equity market continued to express optimism about the longer-term global economic outlook. Bonds also traded higher during the quarter, with the yield on 10-year U.S. Treasury bonds declining to around 1.3% at quarter-end versus 1.6% at the beginning of the quarter (the yield increased to 1.5% during September). We would not be surprised to see higher than normal volatility in both the equity and bond markets over the next few months as politicians in Washington, DC wrestle with tax and fiscal policy and the Fed likely commences its much-anticipated tapering of bond purchases.

Strength in energy commodities continued during KMF's third quarter of fiscal 2021. WTI crude oil prices ended the quarter at \$68.43 per barrel (up 3%) and traded over \$75 per barrel during the summer. Crude oil inventories continue to decline globally as the recovery in demand outpaces the gradual return of supply by OPEC+. While prices could potentially trade higher in the short term, our longer-term outlook calls for WTI in the \$55 to \$60 per barrel range – a level that should still promote moderate growth in domestic production. The biggest story in energy commodities during fiscal Q3 was the natural gas market, where the U.S. benchmark price for natural gas increased approximately 50% to roughly \$4.35 per million Btu at quarter-end. During September, prices have continued to rise (exceeding \$5.00 per million Btu) due to of strong global demand and below-normal inventories heading into winter. These events have increased awareness of the critical role of natural gas in the global energy mix and the need for increased, reliable supplies of natural gas to displace traditional higher-carbon fuels.

Uncertainties on the political and regulatory fronts have arguably increased over the last three months and we seem destined for a political “showdown” on multiple issues this fall. However, as we said last quarter, we are optimistic that policies enacted will be positive for the energy infrastructure industry (particularly the renewable infrastructure sector and our investments geared towards the energy transition). There is also a growing awareness that traditional midstream companies will be important participants in the Energy Transition and many midstream companies are beginning to evaluate investment opportunities that capitalize on this trend.

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<sup>1</sup> Performance metrics in this letter represent total returns unless specifically noted otherwise.

Returns were mixed for KMF's energy infrastructure sectors – renewable infrastructure, utilities and midstream (including natural gas and LNG infrastructure) – during the third quarter of fiscal 2021.

- Renewable infrastructure returned 3%<sup>2</sup> for the quarter, similar to second quarter performance.
- Utilities were up for the quarter, with the Utilities Select Sector SPDR ETF (XLU) returning 6% following a 12% return in the second quarter.
- After two double-digit return quarters, midstream returns were slightly negative, with the Alerian Midstream Energy Index (AMNA) down 2%, underperforming the S&P 500 by approximately 1,000 basis points.

For the first three fiscal quarters, the AMNA returned 34%, which is approximately 780 basis points greater than the S&P 500's return over the same time period. Utilities have returned 12% over this period while renewable infrastructure is up 10%. While the year-to-date returns for the renewable infrastructure and utility sectors are significantly lower than the gains experienced by the midstream sector, the third quarter exemplifies the benefits of KMF's diversified portfolio with sizable allocations to utilities and renewables. We expect these two sectors to be relatively uncorrelated with midstream while providing meaningful exposure to the Energy Transition and electrification themes.

## Portfolio and Performance

At the end of our third fiscal quarter, KMF's allocation to equities of NextGen Companies – including Utilities, Renewable Infrastructure Companies, and Natural Gas & LNG Infrastructure Companies – was 59%, up from 57% at the end of our second fiscal quarter. The remainder of our portfolio is invested in equities of traditional midstream companies and credit/preferred securities of energy infrastructure companies. We continue to favor the equities of larger-cap and/or diversified companies across our entire portfolio of energy infrastructure investments. We believe these larger, diversified companies offer the best risk versus return prospects and they are better positioned to withstand a general market or sector downturn than their smaller-cap peers.

We are very pleased with KMF's performance during the third fiscal quarter. KMF achieved a Net Asset Return of 2.6%<sup>3</sup> and a Market Return of 2.8%<sup>4</sup>, marking the fifth consecutive quarter in which KMF posted positive Net Asset Returns. For the first nine months of fiscal 2021, KMF's Net Asset Return was 31% and KMF's Market Return was 44%. These returns are roughly twice those of more diversified infrastructure funds during this period. KMF's performance also compares very favorably to less diversified, midstream-focused funds over this period despite having a much more diversified and less volatile portfolio. For more details on KMF's performance please refer to the Quarterly Performance Section of our website at [www.kaynefunds.com/kmf/#performance](http://www.kaynefunds.com/kmf/#performance).

## Outlook

In July of last year, we announced our plan to transform KMF to focus on NextGen Companies participating in, or benefiting from, the Energy Transition to lower carbon and renewable forms of energy. In doing so, we acknowledged that KMF would be unique among infrastructure funds with its portfolio allocations to traditional Midstream, Natural Gas & LNG Infrastructure, Utilities and Renewable Infrastructure. We also recognized that the acceptance of KMF as an infrastructure fund focused on Energy Transition, rather than as a midstream fund, would take time. We believe KMF is off to a very good start, and we are encouraged

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<sup>2</sup> Based on a composite total return for 39 domestic and international renewable infrastructure companies (calculated on a weighted market-cap basis with individual constituents capped at a 10% weighting).

<sup>3</sup> Net Asset Return is defined as the change in net asset value per share plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment plan).

<sup>4</sup> Market Return is defined as the change in share price plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment plan).

that investors have started to take notice given the Fund's performance over the last five quarters. KMF's price to NAV discount has meaningfully compressed over the last year, but the Fund currently trades at a high teen discount. We believe this discount is unwarranted – in particular when you compare KMF's price to NAV discount relative to other diversified infrastructure funds, which trade in-line with or at a premium to NAV. We believe the Fund's attractive distribution and, hopefully, a continuation in steady, consistent Net Asset Returns will eventually garner more recognition from investors and result in a closer relationship between KMF's stock price and its NAV.

We encourage investors to visit our website at [www.kaynefunds.com](http://www.kaynefunds.com) for more information about the Fund, including the podcasts posted within the "Insights" page that discuss performance and key industry trends. We appreciate your investment in KMF and look forward to providing future updates.

KA Fund Advisors, LLC

## KMF Total Returns

KMF Total Returns	Fiscal Q3 2021	Fiscal 2021 (YTD)
Net Asset Return <sup>(1)</sup>	2.6%	30.3%
Market Return <sup>(2)</sup>	2.8%	45.4%
Composite Energy Infrastructure Index <sup>(3)</sup>	1.1%	22.3%

## KMF Portfolio Returns<sup>4</sup>

Portfolio Returns - Fiscal Q3 2021	KMF	Benchmark <sup>(5)</sup>
Midstream	0.1%	(1.9%)
Renewable Infrastructure	6.6%	3.3%
Utility Companies	4.0%	6.0%

(1) Net Asset Return is defined as the change in net asset value per share plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment plan).

(2) Market Return is defined as the change in share price plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment plan).

(3) KMF's Composite Energy Infrastructure Index is comprised of a 50% weighting to the midstream sector, a 35% weighting to the renewable infrastructure sector and a 15% weighting to the utility sector. Returns for each period are total returns (assuming reinvestment of dividends). The sub-sector allocations for this composite index were established by Kayne Anderson at the beginning of fiscal 2021 and are expected to change on an annual basis. Please see footnote 5 for a description of the benchmarks used for each energy infrastructure sub-sector.

(4) Portfolio returns reflect KMF's asset level returns for each sub-sector based on KMF's portfolio holdings. Asset level return is calculated as the total return (before leverage and expenses) of KMF's portfolio holdings divided by the market value of KMF's holdings as of the beginning of the quarter.

(5) The benchmark for the midstream sector is the Alerian Midstream Energy Total Return Index (AMNAX). The benchmark for the renewable infrastructure sector is a composite total return for 39 domestic and international renewable infrastructure companies (calculated on a market-cap weighted basis with individual constituents capped at a 10% weighting). The benchmark for the utilities sector is the Utilities Select Sector SPDR (XLU), which is an ETF linked to the Utilities Select Sector Index (IXU), a sub-set of the S&P 500.

# DISCLAIMER & RISK CONSIDERATIONS

***All investments involve risk, including possible loss of principal. An investment in the fund could suffer loss.***

*Kayne Anderson NextGen Energy & Infrastructure, Inc. (NYSE: KMF) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended, whose common stock is traded on the NYSE. The Fund's investment objective is to provide a high level of total return with an emphasis on making cash distributions to its stockholders. The Fund seeks to achieve its investment objective by investing at least 80% of its total assets in securities of Energy Companies and Infrastructure Companies. The Fund anticipates that the majority of its investments will consist of investments in "NextGen" companies, which we define as Energy Companies and Infrastructure Companies that are meaningfully participating in, or benefitting from, the Energy Transition. See Glossary of Key Terms in the Fund's most recent quarterly report for a description of these investment categories and the meaning of capitalized terms.*

*This communication contains statements reflecting assumptions, expectations, projections, intentions, or beliefs about future events. These and other statements not relating strictly to historical or current facts constitute forward-looking statements as defined under the U.S. federal securities laws. Forward-looking statements involve a variety of risks and uncertainties. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; energy industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in detail in the Fund's filings with the Securities and Exchange Commission ("SEC"), available at [www.kaynefunds.com](http://www.kaynefunds.com) or [www.sec.gov](http://www.sec.gov). Actual events could differ materially from these statements or from our present expectations or projections. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. Kayne Anderson undertakes no obligation to publicly update or revise any forward-looking statements made herein. There is no assurance that the Company's investment objectives will be attained.*

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*Past performance is no guarantee of future results. Closed-end funds, unlike open-end funds, are not continuously offered. After the initial public offering, shares are sold on the open market through a stock exchange. As with any other stock, total return and market value will fluctuate so that an investment, when sold, may be worth more or less than its original cost. Shares of closed-end funds frequently trade at a market price that is below their net asset value.*

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